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July 3, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**EX PARTE**

Mr. William Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

**Re: Universal Service (CC Docket No. 96-45)**

Dear Mr. Caton:

Yesterday, John Broten and Alan Daley, representing Bell Atlantic, met with Commissioner Laska Schoenfelder, Camron Hoseck and Charlie Bolle from the South Dakota Public Utility Commission to discuss the-above-captioned proceeding. A copy of the hand-out used in the meeting is attached.

Please include this correspondence as part of the public record in the above-captioned proceeding. This filing is being made today due to the late hour at which the meeting ended.

Sincerely,

*Marie Breslin*

Attachment

cc: Laska Schoenfelder  
Camron Hoseck  
Charlie Bolle

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# BELL ATLANTIC UNIVERSAL SERVICE FUNDING

## GENERAL OVERVIEW

- UNIVERSAL SERVICES AS PROPOSED IN NPRM (¶ 16-22):
  - ◆ SINGLE PARTY, VOICE GRADE ACCESS W/ABILITY TO PLACE/RECEIVE CALLS
  - ◆ TOUCH-TONE
  - ◆ ACCESS TO EMERGENCY 911/E911
  - ◆ ACCESS TO OPERATOR SERVICES
- A SINGLE UNIVERSAL SERVICE FUND SHOULD INCORPORATE:
  - ◆ HIGH COST FUND (APPX. \$735M)
  - ◆ LIFELINE/LINKUP PROGRAMS (APPX. \$142M)
  - ◆ TRS (APPX. \$14M)
  - ◆ EDUCATION/LIBRARY/HEALTH CARE FUND (APPX. \$1.4M START-UP + \$600M ANNUALLY)
- PER 254(J) OF THE ACT, LIFELINE PROGRAM SHOULD BE UNAFFECTED
  - ◆ BA BELIEVES LINKUP PROGRAM ALSO SHOULD BE UNAFFECTED
- PER ADA, MECHANISM FOR TRS ALREADY EXISTS
- FEDERAL SUPPORT MECHANISMS THAT NEED ADDRESSED
  - ◆ HIGH COST FUND
  - ◆ EDUCATION/LIBRARY/HEALTH CARE
- STATES HAVE PRIMARY RESPONSIBILITY FOR ASSURING AFFORDABLE LOCAL SERVICE (AUTHORITY OVER 75% OF COSTS, LOCAL RATES, FAMILIAR WITH CONSTITUENTS & MARKET)

NATIONAL FOCUS SHOULD BE ON BRINGING STATES IN LINE WITH NATION WIDE AVERAGE

## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### HIGH COST FUND

- PROPERLY STRUCTURED FUND
  - ◆ SMALL
  - ◆ TARGETED
  - ◆ COMPETITIVELY NEUTRAL
  - ◆ MINIMIZES BARRIER TO COMPETITIVE ENTRY
  - ◆ ALLOWS MARKET CORRECTIONS
- LOOP IS PRINCIPLE COMPONENT OF HIGH COST FUND
- EXISTING HIGH COST FUND
  - ◆ HAS MET HIGH COST NEEDS
  - ◆ IS PROVED TO WORK
  - ◆ PROVIDES READILY AVAILABLE DATA
  - ◆ IS REPRESENTATIVE OF HIGH COST REQUIREMENTS
  - ◆ IS BASED ON ACTUAL COSTS PER FCC RULES
  - ◆ CAN BE USED AS BASE LINE FOR NEW HIGH COST FUND
- FUND GROWTH INDEXED TO RELEVANT FACTOR
  - ◆ ACCESS LINES
  - ◆ INFLATION

# BELL ATLANTIC UNIVERSAL SERVICE FUNDING

## STATES' ROLE

- STATES DIRECTLY EMPOWERED BY ACT (254(f))
  - ◆ IMPLEMENT 214(e), CARRIER ELIGIBILITY
  - ◆ RECOMMEND CHANGES JOINTLY WITH FCC TO RULES RELATED TO UNIVERSAL SERVICE
- STATES' RATEMAKING AUTHORITY
  - ◆ STATES HAVE REGULATORY OVERSIGHT OF 75% OF LOOP COST RECOVERY
  - ◆ STATES HAVE AUTHORITY TO SET/APPROVE LOCAL SERVICE RATES
  - ◆ STATES ARE POSITIONED TO BALANCE AFFORDABILITY WITH LOCAL SERVICE RATES
- STATES ARE FAMILIAR WITH MARKET AND SERVICE CHARACTERISTICS
- \* STATES IN BETTER POSITION TO GAUGE AFFORDABILITY
- DISTRIBUTION OF FEDERAL HIGH COST FUND
  - ◆ MAY BE TAILORED TO STATE-SPECIFIC NEEDS
  - ◆ MAY BE INCORPORATED IN STATE PLANS
  - ◆ CAN BE DISTRIBUTED ON PROPORTIONAL BASIS TO ALL ELIGIBLE PROVIDERS
  - ◆ CAN FOLLOW STATE USF/HCF PLANS FOR DISTRIBUTION

# BELL ATLANTIC UNIVERSAL SERVICE FUNDING

## EXISTING HIGH COST FUND

- BASELINE = NATIONWIDE AVERAGE COST PER LOOP
- BASED ON EXISTING LOOP COST DATA
  - ◆ REPRESENTATIVE
  - ◆ READILY AVAILABLE
  - ◆ ADEQUATE RESULTS
- ADJUSTMENTS
  - ◆ STATE VS. STUDY AREA
  - ◆ EQUALIZES STATES TO NATIONAL AVERAGE
  - ◆ EQUALIZING FACTORS
    - \* COSTS PER LOOP
    - \* NUMBER OF LOOPS
  - ◆ STATE DISTRIBUTION TO ELIGIBLE CARRIERS
- TRANSITION MECHANISM
- BENEFITS
  - ◆ NOT CARRIER-SPECIFIC
  - ◆ ENCOURAGES OPERATING EFFICIENCIES
  - ◆ EQUITABLE RECOGNITION OF STATES' COST/RECOVERY MECHANISM
  - ◆ ALLOWS GREATER INVOLVEMENT OF STATES
  - ◆ DISCOURAGES UNECONOMIC IMPACTS ON FUND

## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### ALTERNATIVE MODELS TO ASSESS HIGH COST FUND

- MODELS PURPORTED TO BE MORE PRECISE
  - ◆ ASSUME A HIGHER LEVEL OF PRECISION OF AN IMPRECISE PROCESS
- DO NOT RECOGNIZE CONSTRAINTS UNDER WHICH INDUSTRY MUST OPERATE (I.E., AVERAGE RATES, REAL COSTS)
- COST ASSUMPTION AND METHODOLOGY EXTREMELY CONTROVERSIAL
- DO NOT SIZE THE FUND
- REQUIRE ARBITRARY SELECTION OF BENCHMARK RATE
- REQUIRE BIFURCATED APPROACH FOR LARGE AND SMALL LECOS
- FUNDAMENTALLY ALTERS EXISTING MECHANISM WITH LITTLE IMPROVEMENT IN PRECISION
- OUTCOME OR RESULTS SUBJECT TO WIDE INTERPRETATION

## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### EDUCATION/LIBRARIES/HEALTH CARE

- GOAL: MAKE TELECOMMUNICATIONS SERVICES AFFORDABLE TO
  - ◆ K-12 SCHOOL CLASSROOMS
  - ◆ PUBLIC LIBRARY PATRON SERVICES
  - ◆ RURAL NOT-FOR-PROFIT HEALTH CARE PROVIDERS.
- RECOMMENDED APPROACH
  - ◆ RURAL NOT-FOR-PROFIT HEALTH CARE PROVIDERS
    - \* MOVE RATES TO URBAN LEVELS
    - \* ESTIMATED SUBSIDY REQUIRED IS ABOUT \$20 MILLION
    - \* REIMBURSED TO PROVIDER FROM UNIVERSAL SERVICE FUND
  - ◆ SCHOOLS & LIBRARIES
    - \* K-12 SCHOOLS -- NATIONAL PRICE IS ESTIMATED CREDIBLY IN KICKSTART PARTIAL CLASSROOM
    - \* JOINT BOARD SETS DISCOUNT RATE FOR STARTUP PRICE AND RECURRING PRICE (E.G. 75% AND 50%)
    - \* FUND ADMINISTRATOR REMITS VOUCHER TO EACH SCHOOL
    - \* VARIES: MORE FOR BIG SCHOOLS, SCHOOLS IN LOW INCOME AREAS, RURAL AREAS
    - \* SURCHARGE IS COLLECTED BY TELECOM PROVIDERS - AS FOR OTHER FUND ELEMENTS
    - \* SCHOOLS NEGOTIATE VOLUME DISCOUNTS -- ACHIEVING "BEST COMMERCIAL PRICE"
    - \* SCHOOLS USE VOUCHER TO FURTHER LOWER EFFECTIVE PRICE THEY PAY

## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### EDUCATION/LIBRARIES/HEALTH CARE (CONT'D)

- ADVANTAGES
  - ◆ SCHOOLS BUY FROM ANY TELECOM PROVIDER ANY SERVICE NEEDED
  - ◆ MARKETPLACE REMAINS INTACT AND WORKING TO HELP SCHOOLS
  - ◆ MINIMUM DISRUPTION TO EXISTING STATE PLANS TO HELP SCHOOLS
  - ◆ EVEN POOREST SCHOOLS HAVE "PURCHASING POWER" TO GET STARTED
- ESTIMATED "COST" (AT RECOMMENDED DISCOUNTS) \$1.4 BILLION STARTUP, \$600 MILLION RECURRING



## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### RECOVERY MECHANISM

- COMPETITIVELY NEUTRAL
- COST RECOVERY BASIS
  - ◆ FROM ALL TELECOM PROVIDERS
  - ◆ REVENUE BASED
  - ◆ PRESUBSCRIBED LINES
  - ◆ SURCHARGE
- SUBSIDIES MUST BE EXPLICIT
- PHASE IN MECHANISM

## BELL ATLANTIC UNIVERSAL SERVICE FUNDING

### RECAP

- HIGH COST FUND
  - ◆ BASED ON EXISTING DATA
  - ◆ FUND TO STATES VS. LECS
  - ◆ TARGETED AND COMPETITIVELY NEUTRAL
- EDUCATION/LIBRARIES/HEALTH CARE
- OTHER PROCEEDINGS
  - ◆ INTERCONNECTION
  - ◆ ACCESS REFORM
- SIGNIFICANT STATE ROLE